



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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April 23, 2009

Mr. Jan Sturla, Director
California Department of Child Support Services
P. O. Box 419064
Rancho Cordova, CA 95741-9064

Dear Mr. Sturla:

Final Report—Agreed-Upon Procedures, Kern County Department of Child Support Services

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its Agreed-Upon Procedures Engagement of Kern County Department of Child Support Services' (County) fiscal years 2005-06 and 2006-07 Local Child Support Agency Administrative Expense Claim Schedules and Certifications. This engagement was performed under an interagency agreement between the California Department of Child Support Services (Department) and Finance.

The enclosed report is for your information and use. The *Findings* section of this report provides instances of the County's non-compliance with the OMB Circular A-133 Compliance Supplement for CFDA 93.563, OMB Circular A-87, and other applicable federal and state codes and regulations. The findings pertain to inadequate monitoring and unallowed capital expenditures, weaknesses in internal controls, and non-compliance. As noted in the *Other Matters Outside Agreed-Upon Procedures* section, an issue came to our attention during the course of the evaluation. The issue pertains to undistributable/abandoned funds which were misreported and not escheated in a timely manner.

We appreciate the County's assistance and cooperation. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Phyllis Nance, Director, Kern County Department of Child Support Services
Mr. Brett Sakamoto, Administrative Services Officer, Kern County Department of Child Support Services
Ms. Mary Ann Miller, Assistant Director, Office of Executive Programs, California Department of Child Support Services
Ms. Barbara Owens, Manager, Office of Audits and Compliance Branch, California Department of Child Support Services
Ms. Linda Adams, Chief, Financial Planning Branch, California Department of Child Support Services

AGREED-UPON PROCEDURES

Kern County
Department of Child Support Services
Child Support Enforcement Program
Fiscal Years 2005-06 and 2006-07 Certifications

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

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(916) 322-2985

INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES

Mr. Jan Sturla, Director
California Department of Child Support Services
P. O. Box 419064
Rancho Cordova, CA 95741-9064

The Department of Finance, Office of State Audits and Evaluations (Finance), performed the procedures enumerated below which were agreed to by the California Department of Child Support Services (Department). The procedures were to evaluate the Kern County Department of Child Support Services' (County) fiscal years 2005-06 and 2006-07 Local Child Support Agency Administrative Expense Claim Schedules and Certifications (CS 356). Finance also evaluated whether the certifications were prepared in accordance with applicable federal and state codes and regulations.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States and pursuant to *Standards for Attestation Engagements* issued by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, Finance makes no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed and Results of Those Procedures

Allowable Costs

From the sample selected, determine whether amounts reported on the CS 356 were allowable costs under: (A) Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for Catalog of Federal Domestic Assistance Number 93.563, (B) OMB Circular A-87, and (C) other applicable federal and state codes and regulations. A sample of claimed expenses was selected for each of the following CS 356 line item categories: (A) personnel services expenses, (B) operating and total direct services contract expenses, (C) electronic data processing (EDP) expenses, and (D) laboratory expenses, (E) abatements, and (F) health insurance and performance incentive expenses.

A. Personnel services expenses

- A sample of 12 staff was selected over two bi-weekly pay periods during 2005-06 and 2006-07 (1.9 percent for 2005-06, and 2.6 percent for 2006-07) to evaluate personnel services expenses. This sample included EDP staff and non-EDP staff.

- The payroll expenditures recorded on the CS 356 were traced to the general ledger, payroll registers, and timesheets.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

B. Operating and total direct services contract expenses

- A sample of \$1,295,024 (22 percent) out of \$5,928,591 was selected from 2005-06, and a sample of \$802,280 (15 percent) out of total claimed expenses of \$5,454,620 from 2006-07. The samples included space, utilities, and payment to vendors and to other County departments.
- Transactions were traced to contracts, agreements, invoices or purchase orders, vendor activity reports, and other pertinent documents to determine if the expenditures were program related, properly supported, and paid during the certification period.

The expenses selected for evaluation complied with applicable federal and state codes and regulations except for the following reportable issues:

- The County expended \$1,282,512 on capital leasehold improvements without obtaining prior approval as required by federal regulations.
- The County expended \$116,909 on membership dues in an advocacy and lobbying organization, which is prohibited by federal regulations.
- The County expended \$71,351 on employment resource services for non-custodial parents, which is prohibited by federal regulations.
- The County claimed \$23,705 in interest charges incurred as a result of short-term borrowing from the Kern County general fund, which is prohibited by federal regulations.

See Finding 1 in the *Findings* section of this report.

C. Electronic Data Processing (EDP) expenses

- Samples of 2 percent and 18 percent of non-staff EDP expenditures from fiscal years 2005-06 and 2006-07, respectively, were selected for evaluation.
- Transactions were traced to invoices, and other pertinent documents to determine whether the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

D. Laboratory expenses

- Samples of \$13,488 (30 percent) and \$5,304 (13 percent) of total laboratory expenditures claimed of \$44,874 and \$39,542 for fiscal years 2005-06 and 2006-07, respectively, were selected for evaluation.
- Laboratory expenditures were traced and agreed to invoices and vendor activity reports to determine if the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

E. Abatements

With the exception of the federal and state allocation advances and the operating transfers in, all other interest and program income is required to be abated and reported as such on the CS 356. The following procedures were performed to determine whether interest and program income were properly abated:

- All interest and program revenues were identified.
- A sample of each type of revenue was examined to determine whether the correct amounts were reported as abatements on the CS 356.
- The methodology of the allocation of interest was reviewed.

Interest Income

Interest Income is earned on current operating fund advances. The County invests idle fund cash balances in a secured, diversified portfolio. Earned interest income is allocated to participating funds based on an average daily cash balance on a quarterly basis. The completion of the above procedures provided the following information:

- Interest income is apportioned twice quarterly to the County.
- Interest income was abated on the CS 356 as required by federal and state codes and regulations.

Other Program Income

Other Program Income includes undistributable collections, outlawed warrants, laboratory fees collected and other miscellaneous revenue.

Program income selected for evaluation complied with applicable federal and state codes and regulations.

F. Health Insurance and Performance Incentives

Health Insurance and Performance Incentive expenses were not claimed on the CS 356 for fiscal year 2005-06 and 2006-07. Therefore, this procedure was not applied.

G. Excess Funds

The County child support services fund balances were identified and reviewed. Reconciling procedures are in place to account for actual costs claimed on the CS 356 to funds that were advanced.

The County's child support services program fund balances complied with applicable federal and state codes and regulations.

H. Internal Control

A limited review of the County's internal control over the CS 356 claim process was performed. Based on assessments performed during fieldwork, the following areas were reviewed in detail: CS 356 reporting procedures, interest income apportionment, personnel and payroll, contract monitoring, fixed assets, and fund balance.

To understand the internal control of the County the following procedures were performed:

- Inquiries of County staff were conducted to determine the procedures related to the CS 356 reporting, interest income apportionment, personnel, and contract monitoring.

- The single audits and internal audit reports for fiscal years 2004-05, 2005-06, and 2006-07 were reviewed to determine whether internal control weaknesses were identified by other auditors.
- Interest apportionment computations were recalculated to verify accuracy and completeness.
- Equipment listings were analyzed to assess for completeness.
- Fund balances were analyzed to determine whether the balances appeared excessive.

The results of the procedures performed identified the control deficiencies:

CS 356 reporting procedures

- The written procedures used for preparing the CS 356 did not adequately define the expenditures pertaining to EDP expenses and direct services contracts, nor did they address partial reclassification of expenditures between claim schedule line items.
- When allocating costs from non-EDP to EDP, the County improperly deducted the EDP allocation from "All Other Operating Expenses."
- A system-generated report is not used to track revenues and expenditures on an on-going basis and reconcile to the worksheets.

See Finding 2 in the *Findings* section of this report.

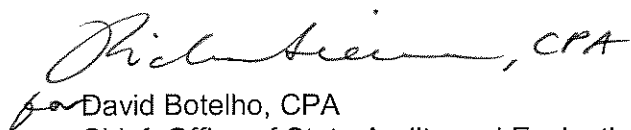
Contract monitoring and Expenditures

- The County does not adequately monitor Lab Corp of America contract payments.

See Finding 2 in the *Findings* section of this report.

Finance was not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had additional procedures been performed, other matters might have come to our attention that would have been reported to the Department. Any recommendations will be provided to the County by the Department.

This report is intended solely for the information and use of the Department and the County, and is not intended to be and should not be used by anyone other than the specified parties. To the extent claimed by the County and allowed by law, confidential or proprietary information provided to the auditors will not be released to the public. However, this report is a matter of public record and its distribution is not limited.


 David Botelho, CPA
 Chief, Office of State Audits and Evaluations
 (916) 322-2985

December 5, 2008

MATTERS OUTSIDE AGREED-UPON PROCEDURES

Statements on Standards for Attestation Engagements established by the American Institute of Certified Public Accountants, requires the reporting of matters coming to the attention of the Department of Finance, Office of State Audits and Evaluations (Finance), that significantly contradicts the subject matter being reported. Identification relates to those matters Finance became aware of during the course of applying the agreed-upon procedures, but which may not directly relate to the specific procedure(s) being performed.

During the course of applying the agreed-upon procedures, the following matter not directly related to specific procedures was identified:

Inaccurate Reporting of Aged Collections

The County has an estimated \$132,603 of unidentified or abandoned collections as of June 30, 2007 that have not been escheated and abated as program income. The collection categories and amounts are presented below.

Category	Amount
Collections for custodial parents (CP) unable to be dispersed	\$ 4,851
Payments to be returned to non-custodial parents (NCP)	588
Unidentified Payments	124,583
Stale Dated/Uncashed Checks, CP	1,762
Stale Dated/Uncashed Checks, NCP	819
Total	<u>\$ 132,603</u>

The County has not maintained the original receipt dates and, therefore, has reported inaccurate aging data. In addition, one of nine samples evaluated reflect an incorrect reporting category.

The records show the County has consistently researched these balances to forward child support funds to custodial parent or return the funds to non-custodial parent. However, the County has retained these unidentified or abandoned funds beyond the statutory period without escheating and abating as required by federal regulations.

The agreed-upon procedures performed disclosed the following reportable issues. Any recommendations will be provided to the Kern County Department of Child Support Services (County) by the California Department of Child Support Services (Department).

FINDING 1 Unallowed use of Grant Funds

Condition: The County has expended approximately \$1.5 million on items not allowed using federal and state grant funds. Detail descriptions of the unallowed items are shown below.

Capital Expenditures: The County expended \$1,282,512 on capital expenditures without obtaining prior approval. The capital expenditures were for tenant improvements over several years.

Fiscal Year	Amount
1999-00	\$230,466
2000-01	164,000
2001-02	405,261
2002-03	183,427
2004-05	164,163
2005-06	80,438
2006-07	54,757
Total	\$1,282,512

Membership Fees Paid to an Organization engaged in lobbying for an extension or continuation of grant funds: The County paid membership dues of \$116,909 to an advocacy and lobbying organization, which is prohibited under federal regulations. The fees were paid for membership to the Child Support Directors' Association—a registered lobbying organization—covering a six year period.

Fiscal Year	Fees Paid
2001-02	\$20,850
2002-03	17,048
2003-04	30,778
2004-05	15,085
2005-06	16,371
2006-07	16,777
Total	\$116,909

Unallowed Employment Resource Services Expenditures for Parents: The County expended \$71,351 of Child Support Enforcement funds for continuing a federal grant beyond its authorized period without obtaining a federal waiver. The grant period ended December 31, 2005. The County continued using grant funds to reimburse a sister County department for employment services provided to parents enrolled in the child support enforcement program. Absent obtaining a federal waiver, employment services are a prohibited use of grant funds.

Unallowed Interest Expense: The County reimbursed and claimed \$21,907 in fiscal year 2005-06 and \$1,797 in fiscal year 2006-07 for unallowed interest charges as a result of short-term borrowing from the general fund.

The \$1,494,476 expended on unallowed items represents grant funds diverted from direct child support enforcement activities and a disregard of federal and state funding priorities.

Criteria:

Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 15.b (3) and (4) states capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

OMB Circular A-87, Attachment B, Section 24 (Lobbying), states that the cost of certain influencing activities associated with obtaining grants, contracts.....is an unallowable cost. In addition, costs incurred in attempting to improperly influence an employer or officer of the Executive Branch, to give consideration, or to act regarding a sponsored agreement or a regulatory matter are unallowable. Section 28 reinforces that costs of membership in organizations substantially engaged in lobbying are unallowable.

Code of Federal Regulations (CFR) Title 45, Section 304.23(d) states that Federal financial participation at the applicable matching rate is not available for education and training programs.

OMB Circular A-87, Attachment B, Section 23, indicates that costs incurred for interest on the use of a governmental unit's own funds are unallowable.

FINDING 2

Significant Internal Control Deficiencies

Condition:

The County has significant internal control deficiencies that could prevent the County from detecting material errors contained on its quarterly CS 356. A detail description of these deficiencies is provided below.

CS 356 Preparation: The County's written procedures for the preparation of the CS 356 do not adequately address all inputs to accurately complete the claim schedule. Therefore the County is at risk for reporting

errors when key personnel are reassigned or leave county employment. In addition, when allocating expenses to EDP the County has improperly deducted the non-EDP amounts from other reporting categories.

Contract Monitoring and Expenditures: The County made contract payments to Lab Corp of America Holdings without verifying that amounts charged agree with the contract rate.

Fund Condition Statement: The County does not make use of an accounting system-generated fund condition statement, which tracks revenues, expenditures, fund balances, and changes to those balances. Without system-generated reports, the County must rely on spreadsheets, which are subject to keying and computation errors.

Criteria:

OMB Circular A-133 Compliance Supplement, Part 6, Internal Controls, states that control activities are the policies and procedures that help ensure that management's directives are carried out. This includes operating policies and procedures that are clearly written and communicated.

CFR Title 45, Section 92.20 requires fiscal controls and accounting procedures sufficient to permit the tracing of funds. In addition, CFR Part 45, Section 92.40 (a), states, "Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Department of Child Support Services (DCSS) Plan of Cooperation, Section IV, Fiscal Administration (1), states that the County shall maintain accounting standards and systems consistent with uniform accounting procedures prescribed by federal and state requirements.

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**KERN COUNTY DEPARTMENT OF
CHILD SUPPORT SERVICES**



Phyllis Nance
Director

April 3, 2009

David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Re: Draft Audit Report, Kern County Department of Child Support Services

Dear Mr. Botelho:

Please find our Department's responses to the audit findings listed in your letter dated March 19, 2009 for inclusion in the final report for the Agreed-Upon Procedures Engagement of Kern County Department of Child Support Services' (County) fiscal years 2005-06 and 2006-07 Local Child Support Agency Administrative Expense Claim Schedules and Certifications.

Matters Outside Agreed Upon Procedures:

Inaccurate Reporting of Aged Collections:

In July 2005, Kern County transitioned from KIDZ to CASES, at the time of the transition any payments or undistributed collections through the day of transition (July 4, 2005) were converted to CASES as undistributed collections under the category of PRTC-Participant Missing. Although the receipts maintained the original legal date of collection, the date of receipt was converted as 07/05/05 and was given a new receipt number beginning with the number 8. Kern County did not have control over how these receipts converted to CASES, and the initial research of these receipts was labor intensive. The DAX070 Payment Processing Exceptions of 07/05/05 indicates 11,976 receipts totaling \$841,285.48 needed to be identified. Additionally, Kern County did not have control over how the receipts were reported on the CS34/35 once they were converted to CASES.

In order to ensure the support for 07/05 was distributed to the case participants in a timely manner, initial efforts were to identify any receipts that would have been applied to that obligation. Due to this being the second implementation of a case management and accounting system, the research to identify the remaining receipts required requesting copies of the receipts from our warehouse for viewing. If we were not able to identify the case the payment should have been applied to, the staff tried to contact the employer, which was also labor intensive.

After implementation of the State Disbursement Unit, all trust fund balances were forwarded to the State in March 2006 as part of the Trust Fund Closeout as directed by the State DCSS in preparation for the transition to the State Disbursement Unit, including the estimated amount of \$132,603 mentioned in the audit report. Also per the State's instructions, remaining accounts were detailed on an Excel worksheet and forwarded along with the funds. The Trust Fund Closeout and amounts were audited by State DCSS auditors in November 2007, though no report has been received by our department, there was no indication that we had held on to funds incorrectly or in error.

Finding 1 – Unallowed use of Grant Funds

Capital Expenditures:

State DCSS does not currently have a formal approval process for approving capital expenditures. In a county Fiscal Letter on the subject of Space Costs from the Department of Social Services dated October 13, 1998 (CFL No. 98/99-39), a grid is included that lists Space Contact/ Approval Requirements, it states that no contact/approval is required on building alterations and maintenance. Also, in an email addressed to all LCSA directors on 12/5/2003 received from Victor Rea (Kern County's regional administrator from State DCSS at the time), he states that the upcoming Plan of Cooperation (POC) "requires LCSAs to obtain prior written approval from the Department for expenditures for contracts, purchase orders or lease agreements which are associated with program costs and which exceed \$100,000. This provision would establish a new requirement which was not included in the earlier POC. The provision was included in the POC by error-it is not the department's intention to enforce this requirement, and LCSAs are not expected to obtain DCSS approval prior to making the expenditures described in this section." Our County has not received any instructions nor has there been policy memos issued by State DCSS subsequent to both of the above listed correspondences that states we need prior approval on capital expenditures.

Membership Fees:

State DCSS and the Child Support Directors Association (CSDA) work as partners on all State Child Support related issues, and most counties are currently members of CSDA. A letter from State DCSS Director Greta Wallace to CSDA Executive Director David Oppenheim dated April 30, 2007 advised CSDA that they could not employ a lobbyist, and must provide formal verification to State DCSS that those activities have ceased. Since the relationship between CSDA and State DCSS has continued to this date, our County is under the impression that the lobbying issue had been resolved therefore making the membership dues an allowable cost.

Unallowed Employment Resource Services:

The Co-Located One Stop for Non-Custodial Parents Project (COSNCP) was a Section 1115 demonstration project grant awarded to the State of California on 9/15/2003 from the Federal Office of Child Support Enforcement (OCSE). Authority was given by the State DCSS to Kern County to conduct this project in accordance with the objectives of the grant, and a MOU between the State and our County department was executed. In section C, line 5 of the MOU, under State DCSS Responsibilities, it states that "DCSS shall consult with the County to determine the future of the project and whether or not a project extension and/or federal extension for program waiver are/is needed." As State DCSS was aware of the continuation of the project after the end of the project date, and did not advise our County on the future of the project as disclosed in the MOU, it was our understanding that continuation of the project was approved by the State and any federal waivers would be obtained by State DCSS.

Unallowed Interest Expense:

As directed by State DCSS, our County established an operating fund separate from of the County General Fund as part of the department's creation and transition from the District Attorney's Office in December 2001. Due to the methodology that State DCSS makes its monthly cash advances, which is to advance 90% of 1/12 of our authorized administrative allocation, our County will experience a negative cash balance when three bi-weekly pay periods are paid in a month and in subsequent months until the quarterly claim is settled. Due to governmental accounting regulations, the County Auditor/Controller's Office will not allow our fund to have a negative balance, and will advance cash from the General Fund to our operating fund in order to maintain a positive cash balance. The shortage of funds advanced from the State

causes our fund to incur interest expense charged by the County. A letter requesting a change in the cash advance methodology has been sent to the State DCSS in March 2009.

Finding 2 – Internal Control Deficiencies

The County continues to utilize a worksheet that reconciles the CS356 claimed expenditures to total accrued expenditures per the County General Ledger. This reconciliation is also provided to the County Auditor-Controller for their review of our quarterly claim; the Auditor-Controller has stated that this reconciliation is very useful in their reconciliation process. It should also be noted that no material errors in any of the CS356 claims were reported in the audit report for the audit period.

CS 356 Preparation –

The County has written procedures in completing the CS356 and the supporting Excel worksheet, and greater detail has been added for further clarification of data input into the worksheet. The County is also cross-training another employee in completing the CS356 so that multiple employees have knowledge of the program data inputs. The allocation of EDP expenses deducted in error from the incorrect expense category has been corrected in the worksheet; the error was not due to data input, but an error in the formula methodology when the worksheet was created.

Contract Monitoring –

All contract payments are verified by a fiscal clerk in the Business Office to ensure correct amounts are billed in accordance to the executed contract; although this verification may not have been documented properly, no errors were noted in the audit report that the incorrect rates had been paid. A more formal review and documentation process has been established, with the Accountant in the Business Office also verifying the contract rates.

No fund condition statement –

The County uses reports generated from the County Auditor-Controller's FMS system that enables us to track revenues, expenditures, and fund balances to support our claims and reconciliations. The County does not maintain a separate accounting system and relies solely on the County Auditor-Controller's system reports in preparing the CS356 claim.

If you need any clarification on any of our responses, please contact Brett Sakamoto, Administrative Services Officer at (661) 868-8483.

Sincerely,



Phyllis Nance, Director
Kern County Department of
Child Support Services

EVALUATION OF AGENCY RESPONSE

The Department of Finance, Office of State Audits and Evaluations, reviewed the Kern County Department of Child Support Services' (County) response to the draft report.

Although the County disagrees with conditions and findings reported in the *Matters Outside Agreed-Upon Procedures* and *Findings* sections, the County has not provided any evidence to change the conditions summarized in the report. Therefore, the report is unchanged.